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REICHHOLD CHEMICALS

**RCI**  
(CANADA) LIMITED

1967 ANNUAL REPORT/RAPPORT ANNUEL



## REICHHOLD CHEMICALS (CANADA) LIMITED

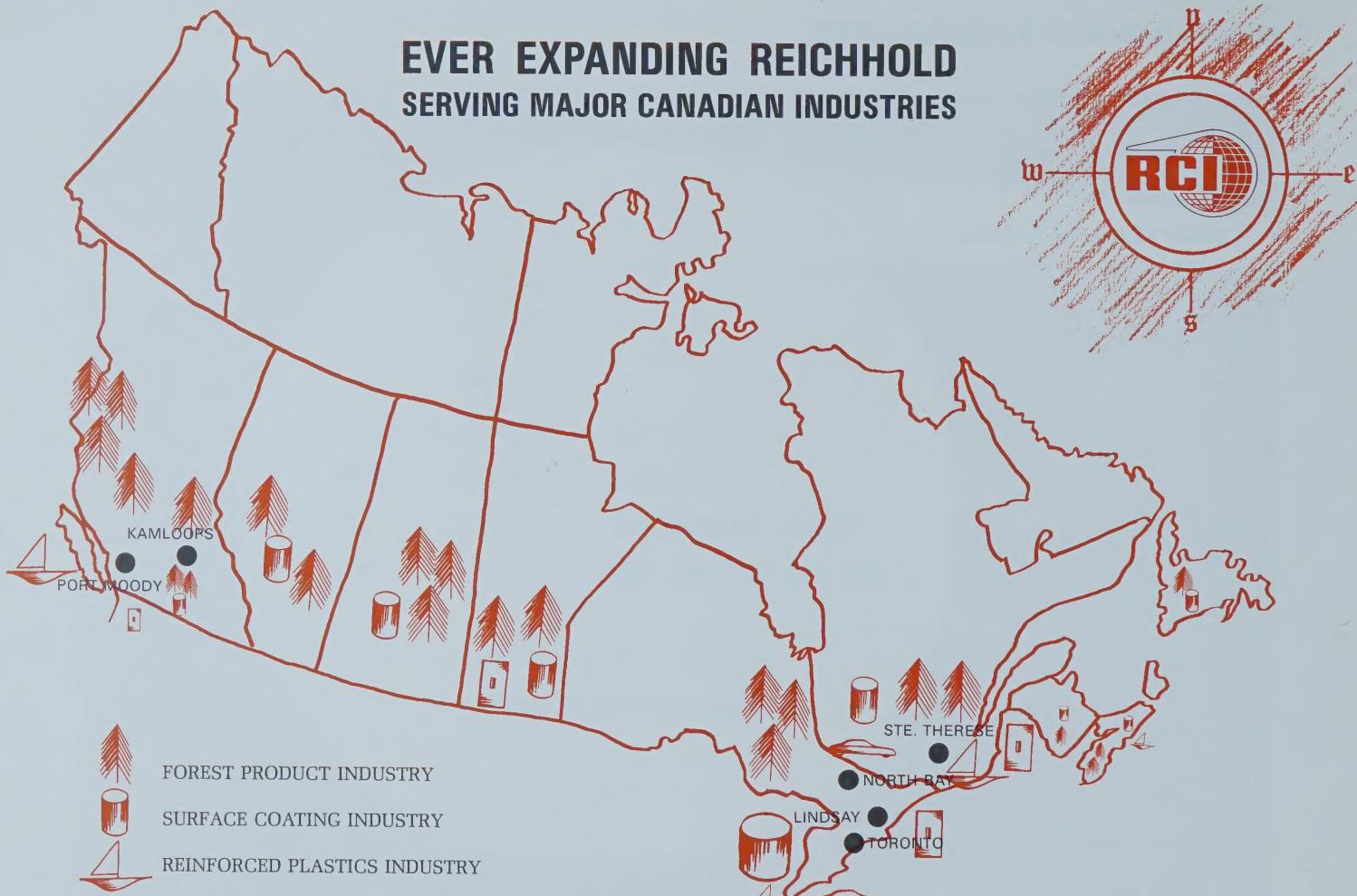
### OUR YEAR AT A GLANCE

|  | 1967         | 1966         |
|--|--------------|--------------|
| NET SALES                                | \$13,286,401 | \$11,999,616 |
| NET PROFIT                               | 450,806      | 368,192      |
| EARNINGS PER COMMON SHARE <sup>1</sup>   | 2.97         | 2.40         |
| BOOK VALUE PER COMMON SHARE <sup>2</sup> | 24.76        | 22.43        |

<sup>1</sup>After deduction for dividend on preference shares.

<sup>2</sup>After deduction for redemption value of preference shares.

# EVER EXPANDING REICHHOLD SERVING MAJOR CANADIAN INDUSTRIES



FOREST PRODUCT INDUSTRY

SURFACE COATING INDUSTRY

REINFORCED PLASTICS INDUSTRY

AUTOMOTIVE INDUSTRY

ELECTRICAL INDUSTRY

## To our Shareholders



O. J. MYERS  
Chairman of the Board



G. L. HAGEN  
President

### SALES, EARNINGS

Sales for 1967 were approximately \$13.3 million dollars. Net profit was \$2.97 per share — an improvement of 23% over 1966. These profits represent a return on shareholders' investment of over 11% after taxes. Although this compares favorably with many other industrial companies, one of our stated corporate objectives is to increase this return to 15%. To achieve this requires a careful program of investment in higher return ventures, which is being pursued as rapidly as feasible.

Last year, profitability on chemical coating resins in paint and varnish applications reached a low ebb due to the competitive conflict between manufacturers of resins. In spite of this, the product group did contribute substantially to earnings.

### CAPITAL INVESTMENT

In 1967, about \$650,000 was spent for capital improvement, a third of which, at our Ste. Therese location, was to complete the most modern alkyd facility in all of Canada. Capital expenditures in 1968 are expected to be at a reduced rate.

### PRODUCTS AND END USES

We are trying to reach our target for return on investment by adjusting our product mix and to favor the more specialized and more profitable resins. In addition, we are devoting more attention to those industries where our products find highly profitable end use.

Although your Company has long been known as a prime producer of material for the Chemical Coating Industry, diversification over the past decade has led to its penetration into many other major end uses. Today's plastic products find application in every sector of the Canadian economy and their new uses will continue to increase. The very wide range of properties such as chemical resistance, physical toughness, light weight and ease of fabrication find our products constantly replacing such common materials as metals and glass.

One of the major areas where RCC materials are used is in residential and industrial construction. In this field there are countless growing uses for RCC materials such as in monolithic flooring, adhesives, metal coatings, decorative overlays, insulation panels, fiber-glass reinforced panels, pipes and ducts.

### PERSONNEL

One of the really strong points of our company continues to be the ability to attract and keep able people. 1967 was another year of strengthening of staff to build for the future. We are very pleased with the caliber of the men and women we have with us today.

### PLANT OPERATIONS

All plants, including the newer ones at North Bay, Kamloops, and the new additions at Ste. Therese and Toronto functioned quite satisfactorily. Operating economies continued to be found with good volumes at all plants. One trouble spot, however, was at Kamloops where a strike in the B.C. interior plywood mills

slowed operations during the last quarter. Some of the mills are in operation now and all should be at least by April 1.

Much effort was spent in OPERATIONS CONTROL to reduce costs and improve throughput rates. Teams of technical and operations personnel were formed at each Division to attack specific cost problem areas. This is continuing with good results. Inventory control was another facet which was given much attention during 1967.

#### TECHNOLOGY

Research and technology are vital in our industry. We are proud of the giant steps forward that we have taken during 1967. Two patents have been applied for, and many more "searches of the art" are currently in progress. Research effort of the company was increased in 1967. Because of government research grants and other assistance obtained by your company, we have been able to mount a very effective program. Data Processing and our Systems and Procedure are being tied into our concept of proper administration of research and development, and also into other company departments.

Reichhold Canada continues to benefit from association with our U.S.A. and other foreign affiliates. New technology developed there is immediately available for use.

#### LONG RANGE PLANNING

We have continued to utilize the results of our long range planning. In this the company's strengths and weaknesses were analyzed by

department heads, sales staff, etc., and every effort is being made to capitalize on our strengths and overcome weaknesses. Our projection for future growth has been transmitted into action.

#### 1968 OUTLOOK

For 1968 we are confidently looking forward to absorption by the growing Canadian economy of some of the surplus capacity in the less profitable areas. New products will add substantially to 1968 sales. For example in the growing foam market where shock absorption and insulation are an important consideration, our products are used more and more in truck vans, refrigerators and freezers.

Transportation still continues to expand rapidly as a consumer of plastics. Machined parts, housings, ducts, body parts, as well as encapsulated electrical parts, insulation tapes and small press moldings are all made from our resins. Also, these resins provide the structure for snowmobiles, boats, and truck bodies.

The 1968 economy could be as difficult as last year in terms of corporate profits. Higher wages, taxes and freight will not be offset by higher prices for our more competitive lines of products. However, our expected higher sales in 1968, coupled with further operating economies, and new products, should make for a very satisfactory year.

O. J. MYERS,  
Chairman

G. L. HAGEN,  
President

## A nos Actionnaires.

### VENTES, RECETTES

Notre volume de vente en 1967 rapporta environ \$13.3 millions de dollars. Notre profit net fut de \$2.97 par action, une augmentation de 23% sur 1966. Ces profits représentent un rendement net du placement des actionnaires de 11%. Quoique ce rendement puisse être comparé très favorablement à celui de plusieurs autres sociétés industrielles, un des objectifs déclarés de la corporation est d'augmenter ce rendement à 15%. Pour atteindre cela, il faut élaborer un programme réfléchi de placement dans des opérations à meilleur rendement, ce que nous nous efforçons de faire le plus rapidement possible.

Au cours de l'an dernier, le pourcentage de profit sur la vente d'enduits chimiques à base de résine utilisés dans la peinture et le vernis a été très bas à cause du conflit de concurrence entre les fabricants de résines. Malgré cela, ce groupe de produits a quand même apporté une contribution substantielle aux recettes.

### PLACEMENT DE CAPITAUX

Environ \$650,000 ont servi, en 1967, à l'amélioration de nos installations dont un tiers fut utilisé à notre usine de Ste. Thérèse pour en faire l'installation alkyde la plus moderne du Canada. Nous prévoyons une diminution d'immobilisation de capitaux en 1968.

### PRODUITS ET DESTINATION

Quant au rendement de nos investissements, nous nous efforçons de rencontrer notre objectif en ajustant notre choix de produits de

manière à favoriser les résines les plus spécialisées et les plus profitables. En outre, nous nous intéressons plus à ces industries où nos produits trouvent un emploi ultime très profitable. Quoique notre Société soit reconnue depuis longtemps surtout pour ses produits destinés à l'Industrie des Enduits Chimiques, sa politique de variation de la dernière décennie l'a conduite à lancer plusieurs autres produits vers une importante destination. On trouve, aujourd'hui, des emplois pour les produits en plastique dans tous les secteurs de l'économie canadienne et leurs nouveaux usages continueront de se multiplier. A cause de leur très grande variété de qualités telles que leur résistance chimique, leur solidité physique, leur poids léger et leur facilité de fabrication, on découvre que nos produits remplacent continuellement des matériaux ordinaires comme les métaux et le verre.

Un des principaux domaines où l'on emploi les matériaux RCC est celui de la construction résidentielle et industrielle. On y trouve, de plus en plus, d'innombrables emplois pour les matériaux RCC tels que pour les planchers monolithes, les adhésifs, les enduits pour métal, les incrustations décoratives, les panneaux d'isolation, les panneaux renforcés de fibre de verre, des tuyaux et des conduits.

### PERSONNEL

Une des caractéristiques vraiment importantes de notre Société demeure toujours sa capacité d'attirer et de garder des employés compétents. L'année 1967 nous permit de consolider de nouveau notre personnel pour préparer l'avenir.

Nous sommes très satisfaits du calibre des hommes et des femmes qui sont avec nous aujourd'hui.

#### **EXPLOITATION DES USINES**

Toutes les usines y compris les plus récentes à North Bay, à Kamloops et les nouveaux rajouts à celles de Ste-Thérèse et de Toronto, ont fonctionné de façon très satisfaisante. Des économies d'exploitation furent de nouveau pratiquées grâce au bon volume de travail dans toutes les usines. Il y eut un problème, cependant, à Kamloops où une grève des usines de contre-plaqué de la région de l'intérieur de la Colombie-Britannique retarda l'exploitation durant le dernier trimestre. Certaines usines se sont maintenant remises à fonctionner et les autres le feront avant le 1er avril.

Un grand effort a été fait dans l'administration des exploitations afin d'en réduire les frais et la période de temps requise pour la production. Des équipes formées de membres de notre personnel technique et administratif furent créées dans chaque division pour étudier certains problèmes de frais de production dans des secteurs particuliers. Ce procédé continue et apporte de bons résultats. Nous nous sommes aussi bien préoccupés de la surveillance des inventaires en 1967.

#### **TECHNOLOGIE**

La recherche et la technologie sont essentielles à notre industrie. Nous sommes fiers des pas de géant que nous avons pris en 1967. Nous avons demandé deux brevets d'invention, et un grand nombre de "recherches pour l'art" sont actuelle-

ment en cours. Plus d'efforts en matière de recherche ont été faits par la société en 1967. Grâce à des subventions du gouvernement ainsi que d'autres ressources obtenues par votre société, nous avons réussi à créer un programme très efficace. La transformation des données ainsi que notre méthode de systèmes et de procédure sont en train d'être liées à notre concept de bonne administration dans la recherche et le développement ainsi que dans d'autres services de la société.

Reichhold Canada profite toujours de son association avec nos filiales aux Etats-Unis et ailleurs. Tout nouveau procédé technologique qui y est découvert est immédiatement mis à notre disposition.

#### **PLANIFICATION DE LONGUE PORTEE**

Nous avons continué à utiliser les résultats de notre planification de longue portée. Les points forts et faibles de la société furent donc analysés par les chefs de service, le personnel des ventes, etc., et nous nous efforçons de tourner nos points forts à notre profit et de triompher de nos points faibles. Nos prévisions pour notre croissance future ont donc été réalisée.

#### **PERSPECTIVES POUR 1968**

Nous nous attendons bien qu'en 1968, l'économie canadienne grandissante absorbera une certaine quantité de notre sur-production dans les domaines les moins profitables. Grâce à de nouveaux produits, notre volume de ventes en 1968 augmentera sensiblement. Par exemple, dans le marché grandissant du caoutchouc mousse, où l'on considère comme important

l'amortissement des chocs et l'isolement, nos produits sont de plus en plus utilisés dans les camions, les réfrigérateurs et les congélateurs.

L'industrie du transport continue toujours de grandir rapidement comme consommateur de plastique. Nos résines sont déjà utilisées pour fabriquer des pièces usinées, des conteneurs, des conduits, des pièces détachées ainsi que des pièces de matériel électrique en capsule, des rubans d'isolation, et des petites pièces moulées et pressées. De plus, ces résines servent à fabriquer des autoneiges, des bateaux et des carrosseries de camion.

Quant aux profits de la société, l'économie de 1968 pourrait demeurer aussi difficile que l'an dernier. Les salaires plus élevés, les impôts et les frais de transport ne seront pas contrebalancés par des prix plus élevés en ce qui concerne nos spécialités qui ont assez de concurrence. Toutefois, le fait de compter sur un volume de ventes plus élevé en 1968, sur d'autres économies d'exploitation et sur de nouveaux produits, devrait nous rapporter une année très satisfaisante.

O. J. MYERS,  
Président du Conseil

G. L. HAGEN,  
Président

**REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND RETAINED EARNINGS**

Year ended December 31, 1967 with comparative figures for 1966

|   | <u>1967</u>         | <u>1966</u>      |
|---|---------------------|------------------|
| Net sales . . . . .   | \$13,286,401        | 11,999,616       |
| Cost of sales . . . . .   | <u>10,389,110</u>   | 9,527,553        |
| Gross profit . . . . .  | 2,897,291           | 2,472,063        |
| Selling, general and administrative expenses . . . . .            | <u>1,991,152</u>    | 1,728,009        |
| Net operating profit . . . . .                                    | 906,139             | 744,054          |
| Other expenses (income):  |                     |                  |
| Debenture interest (note 3) . . . . .                             | 39,375              | 39,625           |
| Other interest . . . . .  | <u>90,569</u>       | 35,457           |
| Loss on disposal of fixed assets . . . . .                        | 4,921               | 10,803           |
| Services rendered to associated company . . . . .                 | <u>(104,165)</u>    | —                |
| Sundry — net . . . . .  | <u>(10,614)</u>     | <u>(19,115)</u>  |
|   | 20,086              | 66,770           |
| Profit before income taxes . . . . .                              | 886,053             | 677,284          |
| Income taxes:   |                     |                  |
| Current . . . . .   | 373,247             | 50,092           |
| Deferred (note 4) . . . . .                                       | <u>62,000</u>       | 259,000          |
|   | 435,247             | 309,092          |
| Net profit . . . . .  | 450,806             | 368,192          |
| Retained earnings at beginning of year . . . . .                  | <u>2,097,938</u>    | 1,836,155        |
|   | <u>2,548,744</u>    | <u>2,204,347</u> |
| Deduct:   |                     |                  |
| Dividends:  |                     |                  |
| 50¢ per share on preference shares . . . . .                      | 23,750              | 23,750           |
| 60¢ (1966 - 57 1/2¢) per share on common shares . . . . .         | <u>86,250</u>       | 82,659           |
|   | 110,000             | 106,409          |
| Retained earnings at end of year . . . . .                        | <u>\$ 2,438,744</u> | <u>2,097,938</u> |
| Included in the above statement are the undernoted expenses:      |                     |                  |
| Depreciation . . . . .  | \$ 585,508          | 478,591          |
| Direct remuneration of directors and senior<br>officers . . . . . | 130,850             | 114,900          |

See accompanying notes to consolidated financial statements.

REICHHOLD CHEMICALS (CANADA) LTD.  
CONSOLIDATED

December 31, 1967 with a

**ASSETS**

|  | <u>1967</u>      | <u>1966</u>      |
|--|------------------|------------------|
| <b>CURRENT ASSETS:</b>   |                  |                  |
| Cash . . . . .   | \$ 50,933        | 28,756           |
| Marketable securities, at cost (quoted value \$18,625;<br>1966 — \$19,500) . . . . . | 25,000           | 25,000           |
| Accounts receivable:   |                  |                  |
| Trade . . . . .  | 2,230,913        | 1,806,073        |
| Other . . . . .  | 48,829           | 42,705           |
|  | <u>2,279,742</u> | <u>1,848,778</u> |
| Less allowance for doubtful accounts . . . . .                                       | 135,000          | 100,000          |
| Net receivables . . . . .  | 2,144,742        | 1,748,778        |
| Income taxes recoverable . . . . .   | —                | 93,468           |
| Inventories, at the lower of cost or net realizable value . . . . .                  | 1,848,088        | 1,875,135        |
| Prepaid expenses . . . . .   | 206,832          | 185,031          |
| Total current assets . . . . .   | <u>4,275,595</u> | <u>3,956,168</u> |
| Special refundable tax . . . . .   | 28,752           | 30,400           |
| <b>Fixed assets, (note 2):</b>   |                  |                  |
| Land, buildings and equipment . . . . .  | 7,099,587        | 6,456,502        |
| Less accumulated depreciation . . . . .  | <u>3,190,663</u> | <u>2,614,680</u> |
|  | <u>3,908,924</u> | <u>3,841,822</u> |

**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have examined the consolidated balance sheet of Reichhold Chemicals (Canada) Limited and subsidiary as of December 31, 1967 and the consolidated statements of profit and loss and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
March 4, 1968

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

\$8,213,271

7,828,390

Approved on behalf of  
G. L. HAGAN  
D. G. McNALLY

# A) LIMITED AND SUBSIDIARY

## BALANCE SHEET

Comparative figures for 1966

### LIABILITIES

|  | <u>1967</u>               | <u>1966</u>             |
|--|---------------------------|-------------------------|
| <b>CURRENT LIABILITIES</b>   |                           |                         |
| Bank advances, secured . . . . .   | \$1,577,919               | 1,039,692               |
| Accounts payable and accrued expenses . . . . .                            | 756,139                   | 1,560,378               |
| Due to associated company, Reichhold Chemicals Inc. . . . .                | 208,812                   | 288,082                 |
| Income taxes payable . . . . .   | <u>377,357</u>            | —                       |
| Total current liabilities . . . . .  | <u>2,920,227</u>          | 2,888,152               |
| <br>5 3/4% secured sinking fund debentures due                             |                           |                         |
| January 1, 1973 (note 3) . . . . .   | 400,000                   | 450,000                 |
| <br>Deferred income taxes (note 4) . . . . .                               | 828,300                   | 766,300                 |
| <br>Shareholders' equity:  |                           |                         |
| Capital stock (note 5):  |                           |                         |
| 5% redeemable cumulative preference shares of a par<br>value of \$10 each. |                           |                         |
| Authorized and issued 47,500 shares . . . . .                              | 475,000                   | 475,000                 |
| Common shares of a par value of \$2 each.                                  |                           |                         |
| Authorized 762,500 shares; issued 143,750 shares . . . . .                 | <u>287,500</u>            | 287,500                 |
|  | <u>762,500</u>            | 762,500                 |
| Contributed surplus . . . . .  | 863,500                   | 863,500                 |
| Retained earnings . . . . .  | <u>2,438,744</u>          | 2,097,938               |
| Total shareholders' equity . . . . .                                       | <u>4,064,744</u>          | 3,723,938               |
|  | <u><u>\$8,213,271</u></u> | <u><u>7,828,390</u></u> |

of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

## REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1967  
with comparative figures for 1966

|   | <u>1967</u>       | <u>1966</u>      |
|---|-------------------|------------------|
| Funds provided:   |                   |                  |
| Net profit .....  | \$ 450,806        | 368,192          |
| Add charges not requiring cash expenditure:                             |                   |                  |
| Depreciation .....  | 585,508           | 478,591          |
| Loss on disposals of fixed assets .....                                 | 4,921             | 10,803           |
| Deferred income taxes .....   | 62,000            | 259,000          |
| Funds provided from operations.....                                     | <u>1,103,235</u>  | <u>1,116,586</u> |
| Special refundable tax refund received .....                            | 5,448             | —                |
| Total funds provided.....   | <u>1,108,683</u>  | <u>1,116,586</u> |
| Used as follows:  |                   |                  |
| Additions to plant and equipment (net of proceeds<br>on disposal) ..... | 657,531           | 1,217,159        |
| Special refundable tax paid .....                                       | 3,800             | 30,400           |
| Retirement of long-term debt .....                                      | 50,000            | 50,000           |
| Dividends on preferred and common shares.....                           | <u>110,000</u>    | <u>106,409</u>   |
| Total funds used.....   | <u>821,331</u>    | <u>1,403,968</u> |
| Increase (decrease) in working capital.....                             | <u>\$ 287,352</u> | <u>(287,382)</u> |
| Working Capital Changes:  |                   |                  |
| Working capital at beginning of year .....                              | \$ 1,068,016      | 1,355,398        |
| Working capital at end of year .....                                    | <u>1,355,368</u>  | <u>1,068,016</u> |
| Increase (decrease) in working capital.....                             | <u>\$ 287,352</u> | <u>(287,382)</u> |

See accompanying notes to consolidated financial statements.

# REICHHOLD CHEMICALS (CANADA) LIMITED AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1967

### 1. SUBSIDIARY

The subsidiary is Varcum Chemical Corporation (Canada) Limited which is wholly-owned.

### 2. FIXED ASSETS

The fixed assets of the company are recorded at cost less accumulated depreciation except for the fixed assets of the Varcum Division which assets are recorded on the basis of an appraisal made by the Manufacturers' Appraisal Company as of July 1, 1959 in the amount of \$224,591 with subsequent additions at cost. Depreciation has been provided from July 1, 1959 on the total of appraisal amount at that date and on the cost of subsequent additions.

### 3. SECURED DEBENTURES

Principal instalments of \$50,000 on the secured sinking fund debentures are payable annually on January 1 each year. The instalment due January 1, 1968 was paid prior to December 31, 1967. Interest in addition to 5 3/4% is payable on the secured debentures at the rate of 1/4 of 1% per annum for each \$25,000 by which the net profit of the company (before charging the additional interest) exceeds \$100,000, to a maximum of 3%. Additional interest of 3% has been provided in the accounts with respect to 1967. The debentures are secured by a floating charge on all assets of the company

excepting assets to a maximum of \$1,600,000 which may be used as security for current obligations.

The supplemental deed of trust dated October 15, 1962, securing the debentures provides for certain restrictions on the payment of dividends, other than stock dividends, declared subsequent to December 31, 1961. At December 31, 1967 consolidated retained earnings not restricted under the most stringent of these provisions amounted to \$1,015,224.

### 4. DEFERRED INCOME TAXES

Deferred income taxes of \$62,000 in the statement of profit and loss and retained earnings result from claiming for income tax purposes allowances greater than depreciation recorded in the accounts. This amount is included in "Deferred income taxes" in the balance sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

### 5. CAPITAL STOCK

The 5% redeemable, cumulative preference shares are redeemable at the company's option at \$10.50 per share. The preferred shares do not carry voting rights except that if dividends fall in arrears two or more years, the holders of such shares are entitled to five votes each per share held.

# REICHHOLD CHEMICALS (CANADA) LIMITED

## 10 YEAR FINANCIAL REVIEW

(thousands of dollars)

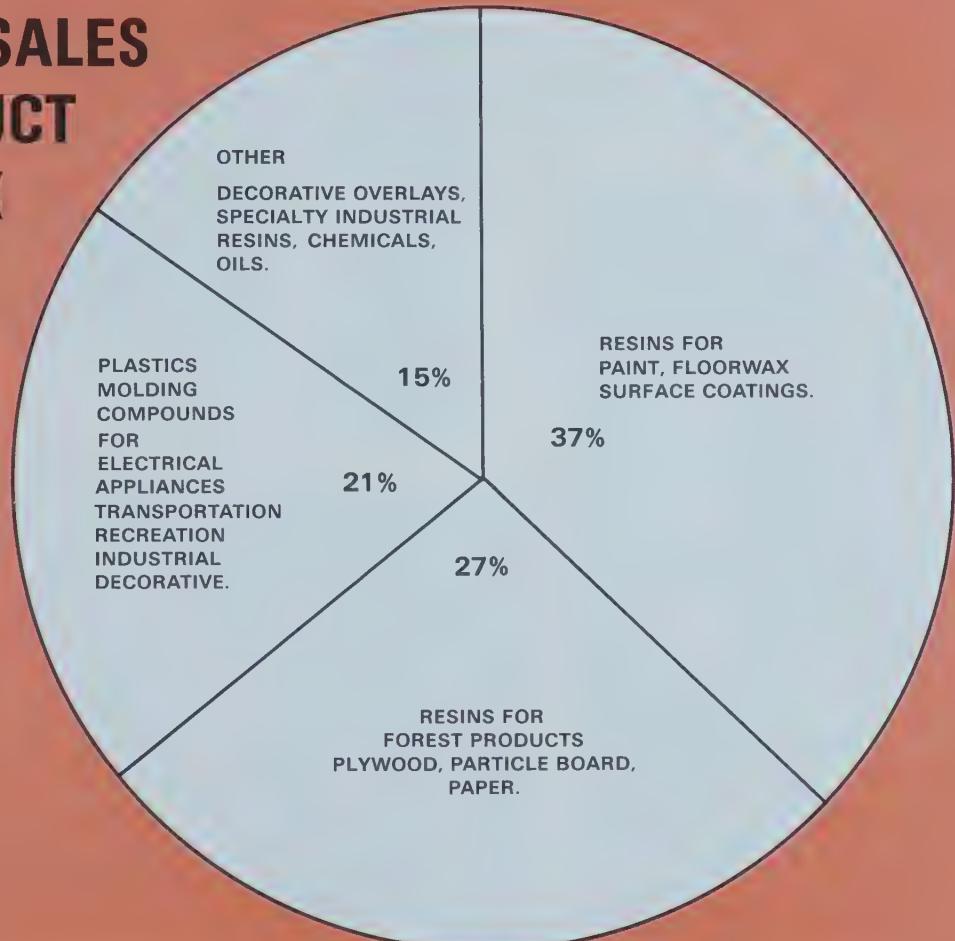
|  | 1967     | 1966     | 1965     | 1964     | 1963     | 1962     | 1961     | 1960     | 1959 <sup>3</sup> | 1958     |
|--|----------|----------|----------|----------|----------|----------|----------|----------|-------------------|----------|
| Net Sales  | \$13,286 | \$12,000 | \$11,231 | \$9,713  | \$7,559  | \$6,684  | \$6,436  | \$5,917  | \$5,499           | \$5,810  |
| Profit (loss) before income,<br>taxes & special items  | 886      | 677      | 908      | 895      | 632      | 355      | (120)    | 78       | 371               | 490      |
| Special profit (loss) items  | —        | —        | (25)     | —        | (65)     | 110      | —        | —        | —                 | —        |
| Net profit (loss) after income<br>taxes  | 451      | 368      | 425      | 444      | 250      | 247      | (80)     | 39       | 188               | 262      |
| Expenditures on Fixed Assets   | 658      | 1,217    | 868      | 675      | 481      | 154      | 188      | 344      | 184               | 214      |
| Provision for depreciation   | 586      | 479      | 418      | 329      | 285      | 231      | 229      | 209      | 185               | 183      |
| Fixed Assets at net book<br>value  | 3,909    | 3,842    | 3,114    | 2,664    | 2,354    | 2,257    | 2,349    | 2,417    | 2,066             | 2,068    |
| Earnings per common share-<br>Based on shares out-<br>standing at each year<br>end. <sup>1</sup> | \$ 2.97  | \$ 2.40  | \$ 2.79  | \$ 2.92  | \$ 1.57  | \$ 1.55  | \$(.64)  | \$ .01   | \$ 1.14           | \$ 2.18  |
| Dividends paid per common<br>share   | \$ .60   | \$ .575  | \$ .50   | \$ .45   | \$ .30   | \$ .15   | \$ .15   | \$ .30   | \$ .20            | \$ .20   |
| Book value per common<br>share <sup>2</sup>  | \$ 24.76 | \$ 22.43 | \$ 20.61 | \$ 18.54 | \$ 16.07 | \$ 14.80 | \$ 13.39 | \$ 14.18 | \$ 14.38          | \$ 12.51 |

<sup>1</sup> After deduction for dividend on preference shares.

<sup>2</sup> After deduction for redemption value of preference shares.

<sup>3</sup> Became Public Company

# 1967 DOLLAR SALES PRODUCT MIX



## REICHHOLD POLYESTERS FOR UNUSUAL APPLICATIONS

Beautiful ornaments for decorative furniture trim molded from polyester at a fraction of the cost of hand carving.

This beautiful bathroom features a synthetic marble top made from polyester. Not only is it far less expensive, but also it is more durable.



Unusual design of these planters at a new shopping centre illustrate why polyester is so widely used.

In the "luxury" market our products are finding new uses in trophies, "jewelry", decorative objects in homes and offices. These are interesting and profitable if not large volume.



# REICHHOLD CHEMICALS (CANADA) LIMITED

## REICHHOLD PRODUCTS INCLUDE:

Acrylic Emulsions • Accelerators • Air Filtration Products • Hard Resins • Alkyd Resins  
• Alkyd Emulsions • Catalysts • Core Oils • Epoxy Resins and Hardeners • Esters  
• Formaldehyde • Glass Fiber Reinforcement • Hydrocarbon Resins • Melamine Resins  
• o-Benzyl-p-Chlorophenol • o-Phenylphenol • Organic Peroxides • Phenolic Resins • Poly-  
ester Resins • Plasticizers • Polystyrene Emulsions • Polyterpene Resins • Polyurethane  
Resins • Polyvinyl Acetate Emulsions • Resorcinol-Formaldehyde Resins • Thermosetting  
Molding Compounds • Urea Resins • Urea-Formaldehyde Adhesives • Urethane Foam  
Resins • Vinyl Stabilizers •

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## APPLICATIONS AND INDUSTRIES WHERE USED

|                       |                         |                     |
|-----------------------|-------------------------|---------------------|
| Abrasives             | Floor Tiles             | Paper Manufacture   |
| Adhesives             | Floor Waxes             | Plastic Moldings    |
| Agricultural Products | Flotation               | Plywood             |
| Appliances            | Foundries               | Polymer Production  |
| Automotive            | Furniture               | Potting Compounds   |
| Boats                 | Highway Maintenance     | Protective Coatings |
| Building Panels       | Home Construction       | Printing            |
| Chewing Gum           | Industrial Construction | Refrigeration       |
| Closures              | Insulation              | Rubber Products     |
| Electrical Devices    | Leather                 | Textiles            |
| Fiberglass Molding    | Packaging               | Utensils            |
| Filament Winding      | Paint                   | Varnishes           |
| Floor Polishes        | Particle Board          | Vinyl Products      |

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## REICHHOLD TRADENAMES CURRENTLY IN USE

|            |            |                |                 |
|------------|------------|----------------|-----------------|
| ALPHAPRENE | DEECY      | LUSTRASOL      | STAFLEX         |
| ALSYNITE   | DELТАPRENE | MODIGLASS      | STYRESOL        |
| BECKACITE  | DIARON     | PENTACITE      | SUPER-BECKACITE |
| BECKAMINE  | EPOTUF     | PEROXIDOL      | SUPER-BECKAMINE |
| BECKOLIN   | FORAMINE   | PLYAMINE       | SUPER-BECKOSOL  |
| BECKOPOL   | FORASITE   | PLYAMUL        | SYNTHE-COPAL    |
| BECKOSOL   | FORMOX     | PLYOCITE       | SYNTHEMUL       |
| BETAPRENE  | FOUNDREZ   | PLYOPHEN       | VARCUM          |
| CO-POL     | GAMMAPRENE | POLYLITE       | WALLKYD         |
| coRCIment  | HYDROGUM   | POLY-AUTOPLATE | WALLPOL         |
| CO-RELEES  | JEL-O-MER  |                | WATEREZ         |
|            |            |                | WETstrez        |

## REICHHOLD CHEMICALS (CANADA) LIMITED

### PLANTS AND SALES OFFICES

Ste. Therese de Blainville, Quebec  
Lindsay, Ontario  
Weston, Ontario  
North Bay, Ontario  
Kamloops, British Columbia  
Port Moody, British Columbia

### DIRECTORS

R. J. ADAMS  
Treasurer and Vice-President, Eastern  
Division, Reichhold Chemicals (Canada)  
Limited  
S. H. BAUM  
President, Reichhold Chemicals Incorporated  
G. L. HAGEN  
President, Reichhold Chemicals (Canada)  
Limited  
D. G. McNABB  
Executive Vice-President, Reichhold Chemicals  
(Canada) Limited  
O. J. MYERS  
Chairman of the Board, Reichhold Chemicals  
(Canada) Limited; Vice-President, Reichhold  
Chemicals Incorporated  
H. H. REICHHOLD  
Chairman of the Board and Chief Executive  
Officer, Reichhold Chemicals Incorporated  
B. W. SHIELDS  
Member, Law Firm of Tory, Tory, Deslauriers  
& Binnington  
R. T. URIC  
Vice-President, Sales, Reichhold Chemicals  
Incorporated  
W. A. WEISMANN  
Vice-President, Sales, National Accounts,  
Reichhold Chemicals Incorporated; Vice-  
President, Sales Promotion, Reichhold  
Chemicals (Canada) Limited

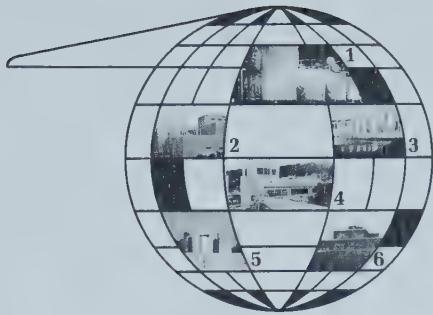
*Registrar and Transfer Agent, Preferred Stock:*  
Goetz, Goetz and Foley, Detroit, Michigan

*Registrar and Transfer Agent, Common Stock:*  
National Trust Co. Ltd., Toronto, Montreal,  
Vancouver

*Auditors:*  
Peat, Marwick, Mitchell & Co., 4 King St. W.,  
Toronto

### OFFICERS

O. J. MYERS  
*Chairman of the Board*  
G. L. HAGEN  
*President*  
D. G. McNABB  
*Executive Vice-President*  
W. A. WEISMANN  
*Vice-President, Sales Promotion*  
L. ROY  
*Vice-President, Sales Eastern Division*  
B. W. SHIELDS  
*Secretary*  
R. J. ADAMS  
*Treasurer and Vice-President,  
Eastern Division*



## OUR COVER

*Shows various views of our plants.*

1. WESTON, ONT. Our first plant in Canada, operating since 1950, produces alkyd, P.V.A. emulsions, and polyester resins — mainly for the paint, adhesive, and plastic industries. In addition many specialty resins for printing inks, seamless flooring, concrete additives and other varied applications are made here.
2. KAMLOOPS, B.C. Our sixth and newest resin plant started January 1967 to supply phenolic and urea-formaldehyde resins to plywood manufacturers in the B.C. interior.
3. STE. THERESE DE BLAINVILLE, QUE. From this plant just north of Montreal, comes a wide variety of materials for the paint, plastic, and forest product industries in Eastern Canada. Special phenolic resins for brake linings, grinding wheels and sand paper are produced here.
4. PORT MOODY, B.C. This plant in operation since 1951, originally erected to supply B.C. Coast plywood manufacturers with phenol and urea-formaldehyde resins. Now manufactures alkyd and P.V.A. emulsion resins for the paint industry, polyester resins for the plastic industry, treated fibre products (T.F.P.) for overlaying plywood and particle board for protection and decoration, and formaldehyde for resins.
5. NORTH BAY, ONT. Reichhold's fifth plant, in operation since January 1966, serves the plywood and particle board manufacturers in Northern Ontario and Quebec with Phenolic and urea-formaldehyde resins.
6. LINDSAY, ONT. This plant, acquired in 1960 and since expanded several times, produces a wide variety of phenolic moulding compounds, used in the electrical and appliance industries.



AR44



# E. T. Lynch & Co. Limited

## DIRECTORS

|               |                |
|---------------|----------------|
| E. T. LYNCH   | M. P. ROCHE    |
| J. M. RYAN    | C. H. PUNCHARD |
| H. J. FACHTER | J. FORGET      |

Members: The Toronto Stock Exchange  
Canadian Stock Exchange  
NATIONAL TRUST BUILDING  
10 VICTORIA STREET  
TORONTO 1.  
CANADA

TELEPHONE  
362-1531

TELEX  
02-29279

## REICHHOLD CHEMICALS (CANADA) LIMITED

An Aggressive Canadian  
Chemical Company

Prepared by:  
W. STEWART WEAVER, B.Com.  
Research Director.

September 1967.

## BRANCHES

601 EGLINTON AVENUE WEST, TORONTO 10, CANADA  
SUITE 1004, 800 VICTORIA SQUARE, MONTREAL 3, CANADA  
52 RUE DU ROI, SOREL, QUEBEC



REICHHOLD CHEMICALS (CANADA) LIMITED

Current Market: \$32½

Listed - Toronto Stock Exchange

Shares Issued: 143,750 (31.6% of shares owned by  
Reichhold Chemicals Ltd.)

Pertinent Market Statistics

|           | <u>High</u> | <u>Low</u> |   |
|-----------|-------------|------------|---|
| 1967      | \$34        | \$24       | Completion of expansion program in which earnings should again move to record highs.          |
| 1965-1966 | 33½         | 21         | Stabilization of earnings during considerable expansion program and fire at the Weston plant. |
| 1963-1964 | 32          | 8          | Result of upsurge of building industry being directly reflected in profits.                   |

Introduction

When pursuing a stock to be recommended for investment, each study starts with basic clues suggesting to the writer that he is tracking an underpriced situation. In the case of Reichhold Chemicals the obvious evidence to merit investigation seemed substantiated by deeper research. The basic clues were as follows:

1) Reichhold's first and second quarterly 1967 earnings reports have been extremely encouraging compared to every other major Canadian chemical company. These figures are seen below.

Six Months Comparable Per Share Earnings

|                              | <u>1967</u> | <u>1966</u> |
|------------------------------|-------------|-------------|
| Reichhold Chemicals (Canada) | \$1.67      | \$1.07      |
| Chemcell Ltd.                | .30         | .38         |
| Canadian Industries Ltd.     | .53         | .66         |
| DuPont of Canada             | .71         | .86         |
| Union Carbide Canada         | .47         | .57         |



2) Reichhold Chemicals' new plant at Kamloops, B.C. began operation in January 1967 and the new plant at Ste. Therese, Quebec, began production in April of this year. It is not realized by many investors that this company has spent \$3.6 million on modern plant and equipment over the last 5 years, an amount which equals approximately \$25.50 per share. It is felt that these expenditures are only now beginning to be reflected in earnings and speak well for the future.

3) In 1959 when Reichhold's stock was first offered to the public it sold as high as \$40 per share and earned \$1.14 per share. Earnings in 1967 should approximate \$3.30 per share thereby suggesting the current price level of \$32½ is unusually good relative value.

4) Technically - All stock commitments are concerned with "timing". Reichhold's technical picture produces a staggering projection which has been the prime factor in provoking this study to see if any interpretation of the fundamentals can substantiate it.

In 1963-64 the shares appreciated from \$10 to \$32 following which a 2½ year price consolidation period ensued and the shares retraced about 50% of the previous price advance. If history is now to repeat itself (which is the basis of technical analysis) the stock would have a logarithmic measuring projection into the mid \$80's. A possible time element could be 2 to 3 years, similar to the 1963-64 advance. There may be consolidation on the way to this price objective. This would likely occur around \$50 as the first group of major investors take profits. The current base support should be around \$30, which represents both the early 1966 highs as well as the level of its rising 200-day moving average.

#### Background

Reichhold Chemicals (Canada) Ltd. (RCC) is a subsidiary of Reichhold Chemicals Inc. through current ownership of 31.6% of the stock. Originally in 1949 RCC was incorporated as a private company to take over the Canadian marketing business carried on by the parent since 1930. As sales volume reached economic levels, the company began domestic manufacturing. The company holds exclusive licence in Canada to the parent company's patents, formulae, processes and trademarks in the manufacture and sale in Canada for various resins. The privilege extends for 25 years from Jan. 1, 1959 for which nominal royalties of 2% of net sales are paid.



## Product

Reichhold Chemicals (Canada) manufacturers and sells industrial chemicals, synthetic resins and certain allied specialty chemical products. The principal use of these products is in the building trade as the synthetic resins are used for surface coating, bonding and adhesion. The specialty products include protein glues and reinforcing plastic resin used to bond fibrous glass also in the manufacture of boats, trucks, furniture, corrugated sheeting and foundry products such as tanks and pipes. Approximately 40% of the company's sales are made to the paint and varnish industries, 40% to the plywood and hardboard industry and 8% to the chemical industry. Primarily the company's products are distributed in bulk. Other products where the volume is not economical are imported from the parent company.

The company should not be affected by the Kennedy Trade Agreements because it has not been manufacturing its products under significant benefits derived from tariff barriers.

Reichhold Chemicals (Canada) is research conscious thus ensuring continued growth rate. A completely new research laboratory was set up last year at the Weston Plant. The company continues to make use of government assistance - now with four National Research Council Grants. The original two have been extended from three years to five years.

The current expansion of research is based in a strong background of well developed product lines and technical information gathered from the company's own laboratories as well as co-operation from the parent company.

## Properties

The company operates six plants in the Province of Ontario, Quebec and British Columbia. It will be noted that all these plants have undergone major expansion and product improvement in the last two years which can be indicative of future sales growth.

- 1) The plant at Weston, Ontario was greatly modernized and went on stream in the second quarter of 1966 replacing facilities destroyed by fire in mid 1965.



2) The production facilities of the plant at Lindsay, Ontario were enlarged in 1965.

3) The manufacturing facilities at the plant at Ste. Therese, Quebec were expanded in 1965. A new plant was built and completed in April 1967.

4) The plant at Port Moody, B.C. underwent expansion of production facilities in 1965.

5) The plant at North Bay, Ontario began operations in January 1966.

6) The plant at Kamloops, B.C. was completed in January 1967.

It might be noted that the size of Reichhold's plants bear a direct relationship to their consumer market.

Statistical Background (thousands of dollars)

| Year | Sales        | Operating Profit |           | Depreciation | Net Profit | Cash Flow   |
|------|--------------|------------------|-----------|--------------|------------|-------------|
|      |              | Amount           | Margin    |              |            |             |
| 1970 | \$20,000 est | \$2,500 est      | 12.4% est | \$800 est    | \$800 est  | \$1,600 est |
| 1967 | 13,450 est   | 1,660 est        | 12.4 est  | 550 est      | 580 est    | 1,130 est   |
| 1966 | 12,000       | 1,223            | 10.2      | 479          | 368        | 1,105       |
| 1965 | 11,232       | 1,428            | 12.7      | 418          | 425        | 1,016       |
| 1964 | 9,713        | 1,358            | 14.0      | 329          | 444        | 935         |
| 1963 | 7,559        | 1,050            | 13.9      | 285          | 250        | 618         |
| 1962 | 6,684        | 747              | 11.2      | 231          | 247        | 525         |

Statistical Background - per share

| Year | Net Profit | Cash Flow   | Capital Expenditure |              | Divd. | Return on Invested Capital |
|------|------------|-------------|---------------------|--------------|-------|----------------------------|
|      |            |             |                     | (000's)      |       |                            |
| 1970 | \$5.50 est | \$11.00 est | -                   |              | -     | -                          |
| 1967 | 3.30 est   | 8.00 est    | \$5.20 est          | \$ (750) est | .60   | 13.2 est                   |
| 1966 | 2.40       | 7.69        | 7.40                | (1067)       | .57½  | 10.7                       |
| 1965 | 2.79       | 7.05        | 6.50                | (940)        | .50   | 13.5                       |
| 1964 | 2.92       | 6.50        | 4.80                | (700)        | .45   | 15.7                       |
| 1963 | 1.57       | 4.30        | 5.90                | (845)        | .30   | 9.8                        |
| 1962 | 1.56       | 3.64        | .80                 | (119)        | .15   | 10.5                       |



## Interpretation of Statistical Analysis

### Sales

Sales for the first half of 1967 were \$6.79 million compared to \$6.15 million a year earlier. This represents an 11% gain during a most unsettled time in our economy.

Management's comments in their last (6 months) report stated the "company is in an excellent position to capitalize on any renewed vigour in the economy, which we fully expect to occur". These remarks seem reasonable considering the nature of their business and its close association to the building industry. The expansion programs of the last 5 years has amounted to \$3.6 million or \$25.40 per share, as seen in the table of capital expenditures.

These figures bear tangible evidence of projected sales doubling in the next 5 years. This almost occurred in the last 5 years.

### Net Profit

Earnings in 1966 were estimated to have been 80¢ per share lower according to management in their last Annual Report for the following reasons:

1. The Weston plant had to be rebuilt after the 1965 fire.
2. High cost imports to supply customers.
3. High start-up costs.

Keeping the above comments in mind the 1966 earnings of \$2.40 per share do not compare too unfavourably with \$2.79 per share in 1965.

### Earnings Projections

Projected earnings can always be a challenge at the best of times even with guidance of past performance, current earning reports and reasonable future growth.

Operating margins were calculated as an average of the last five years. The up-grading of the product-mix, new equipment, and increased volume may even expand the operating margin by 1970. For the first 6 months of this year sales have increased over 10% and earnings over 50%. This all occurred during an unsettled business climate in Canada.



|  | <u>Est 1967</u>      | <u>Est 1970</u>      |
|--|----------------------|----------------------|
| Sales  | \$13,450,000         | \$20,000,000         |
| Operating Profit                                       | 1,660,000            | 2,500,000            |
| (Margins)  | 12.4%                | 12.4%                |
| Depreciation   | 550,000              | 800,000              |
| Interest (Debentures, Bank<br>and Preferred Dividends) | 100,000              | 150,000              |
| Profit before Taxes                                    | 1,010,000            | 1,550,000            |
| Taxes  | 530,000              | 750,000              |
| Net Profit   | \$ 580,000           | \$ 800,000           |
| Per Share  | <u><u>\$3.30</u></u> | <u><u>\$5.50</u></u> |

#### Depreciation

Depreciated fixed assets stood at \$3.8 million as of December 31, 1966. The company appears to have adopted a very conservative accounting policy by writing down equipment on an accelerated basis rather than a straight line basis. It has been estimated that this conservative accounting practice has lowered earnings by approximately 50¢ per share.

#### Cash Flow

Cash flow is calculated by adding depreciation and other write-offs to net profits. This figure is important in gauging the funds available for reinvestment by the company for future expansion or for future dividend payments. Reichhold will likely keep investing considerable amounts in plant and equipment in order to secure their growth rate.



Consolidated Balance Sheet - December 31, 1966  
(thousands of dollars)

Assets

|                          |                     |
|--------------------------|---------------------|
| Current                  | \$3,986             |
| Depreciated Fixed Assets | <u>3,842</u>        |
|                          | \$7,828             |
|                          | <u><u>=====</u></u> |

Liabilities

|  |            |
|--|------------|
| Current (including \$1.04 million<br>due bank) | \$2,888    |
| Other (deferred taxes)                         | 766        |
| Long-term Debt (bonds)                         | <u>450</u> |
|  | \$4,104    |

Shareholders Equity

|           |                     |
|-----------|---------------------|
| Preferred | \$ 475              |
| Common    | <u>3,249</u>        |
|           | \$7,828             |
|           | <u><u>=====</u></u> |

From the above figures come the observation that the principal money invested in Reichhold Chemicals (Canada) is by the common stockholders versus the preferred stockholders or the bond holders. The common share equity as of June 30, 1967 was \$23.72.

The \$1.04 million owing to the banks will have to be refinanced. To do this management intends to carry out debt financing over the next two years.

Return on Invested Capital

Return on invested capital as a measuring indicator can be very helpful to an investor for evaluating his security. The investor has to decide whether the undistributed earnings retained by the company bring a greater return than other comparable investments.

Over the last 3 years Reichhold earned approximately 13.3% which compared favourably with the top Canadian chemical companies - DuPont of Canada 13.6% and Union Carbide Canada 13.7%. Both Chemcell and Canadian Industries Limited earned less, the amounts being 11.8% and 9.0% respectively.



1967 will provide an even more favourable comparison for Reichhold as all the other Chemical companies will earn less than the previous year. Reichhold on the other hand will earn more thereby retaining this important margin.

In looking ahead to 1970 it is possible to project an equity per common share of approximately \$31.50, and earnings of approximately \$5.50 per share. These figures would produce a return on invested capital of 17½% which would be an improvement on both the company's margins and in all likelihood better than its competitors.

#### Price/Earnings Ratio Comparison

|                       | Current | 1966      | Earnings      |        | P/E Ratio |              |
|-----------------------|---------|-----------|---------------|--------|-----------|--------------|
|                       | Price   | Range     | 1967<br>(est) | 1966   | Current   | 1966<br>mean |
| Canadian Ind. Ltd.    | \$17½   | \$20½-15½ | \$ .92        | \$1.06 | 19        | 16.9         |
| Chemcell Ltd.         | 11      | 16½-12½   | .60           | .74    | 18.3      | 19.1         |
| DuPont of Canada      | 28½     | 46½-34    | 1.40          | 1.73   | 20.4      | 23.2         |
| Union Carbide of Can. | 21      | 29½-19    | 1.00          | 1.31   | 21        | 18.5         |

Based on 1967 estimated earnings the market has placed a value on the above chemical companies from 18 to 21 times earnings. Based on 1966 earnings, these ratios varied from 17 to 23 times earnings.

Reichhold is currently selling at 13.7 times 1966 earnings and only 10 times estimated 1967 earnings.

These ratios cannot help but suggest Reichhold as being superior market value.

#### Conclusion

The initial evidence that Reichhold Chemicals (Canada) reported excellent potential for capital gains has been substantiated by deeper investigation. The technical projection, as discussed in the opening remarks of our study, could become a reality.

Based on 1967 earnings Reichhold would seem to be good value both on its own and more so when compared to other Canadian chemical companies. Based on the 1970 projected earnings, which would necessitate renewed vigour of the



economy, the company looks like an excellent candidate for substantial capital gains.

Management's conservative approach of paying small dividends and reinvesting the balance of earnings in the company seems justified at this time.

The shares are often difficult to buy, due to the small floating supply of stock in the market. Nevertheless, a position can be gained through gradual accumulation.

Many stocks that are currently attracting investors attention are the smaller companies like the one in our study. Earnings have continued to do well during difficult times. Stocks able to "buck the trend" are worthy of note.

The information in this study has been obtained from sources believed to be reliable, but its accuracy and completeness and the opinions based thereon, are not guaranteed.

